THE UNIVERSITY OF CHICAGO

ROUND TABLE

CARTELS AND THE PEACE

A Radio Discussion by WILLIAM BENTON
HUGH COX *and* GARDINER MEANS

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Around the Round Table . . . .

WILLIAM BENTON has been vice-president of the University of Chicago since 1937. One of his special interests at the University has been the development of educational broadcasting, and he has been closely identified with the growth of the ROUND TABLE during the last five years. Mr. Benton was graduated from Yale University in 1921. The following year he entered the advertising business, and, in 1929, in association with Chester Bowles, he organized the Benton and Bowles Agency. He retired from the advertising business in 1935 and joined the University's administration two years later. A pioneer in the field of radio entertainment, Mr. Benton believes that the potentialities of radio for adult education have scarcely been tapped. He is vice-chairman of the Committee for Economic Development, which was organized recently under the aegis of the Department of Commerce for the purpose of laying plans for maximum employment and maximum industrial productivity after the war.

HUGH COX, Assistant Attorney-General in charge of the War Division of the Department of Justice, is a native of Iowa. He graduated from the University of Nebraska with a B.A. degree in 1926 and went to England as a Rhodes Scholar. In 1929 he received a B.A. degree from Christ College, Oxford, and a year later a B.C.L. degree. Returning to this country, Mr. Cox practiced law in New York City until 1936, when he became a special assistant to the Attorney-General. He was recently appointed an Assistant Attorney-General.

GARDINER C. MEANS, formerly with the law school of Columbia University, has been associated since 1939 and until very recently with the National Resources Planning Board. He received his A.B., M.A., and Ph.D. degrees from Harvard University, and he studied at the Lowell Textile School. After serving with the United States Army in the first World War, he became a member of the staff of Near East Relief and was stationed in Turkey. He was in the textile manufacturing business before he went to Columbia in 1927. In 1933 he became an economic adviser on finance to the Secretary of Agriculture and in 1935 a member of the consumers' advisory board of the NRA. Before joining the National Resources Planning Board staff, he was director of the industrial section of the National Resources Committee. He is the author of *The Holding Company—Its Public Significance and Its Regulation* (with J. C. Bonbright) (1932); *The Modern Corporation and Private Property* (with A. A. Berle) (1932); and *Modern Economy in Action* (with Caroline F. Ware) (1936).

CARTELS AND THE PEACE

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MR. BENTON: "Cartel" is a six-letter word, relatively new to America's vocabulary. We are particularly conscious of it since the war. Cox, the word "cartel," owing to the activities of Thurman Arnold and the evidence brought out in many congressional hearings, has been surrounded with a strange aroma suggesting some new social disease.

MR. COX: Yes, everyone today has heard about cartels. Charges have been made that international cartels have interfered with our production of aluminum, magnesium, synthetic rubber, and other materials that are important to our war effort. Of course, the cartel problem is a problem that not only affects our war effort but is also going to affect the peace. Wouldn't you agree?

MR. MEANS: I certainly would. It is a major problem, and it will be a most important international problem in setting up the peace. Its solution will affect everything else that we do.

MR. BENTON: The evidence indicates that cartel activities affect both production and employment. High levels of production and employment after the war are certainly major objectives. America's democratic society may be at stake. Every practice of government, agriculture, labor, and business which may restrict employment and production needs to be examined anew.

Cox, you are an Assistant Attorney-General. You have had much experience with cartels in the Anti-trust Division of the Department of Justice. Means, you are an eminent economist who have devoted much of your life to corporation practices. Before joining

the faculty of the University of Chicago, I spent fifteen years in business, and I still have business interests. Our role today is to clarify the question of cartels and the peace for the ROUND TABLE's ten million listeners, who supposedly know less about it than we do. I think that the starting place is to define what a cartel is.

MR. COX: A cartel is an agreement between two or more business units operating in the same field of business. The agreement always relates to the way they do business, and it always has a restrictive effect.

MR. MEANS: Does this mean that if four coal companies in my town get together and agree on price, they are a cartel?

MR. COX: Those companies have done one of the things that a cartel often does, but the word "cartel" is usually applied to a group that operates in a somewhat larger area and which is composed of companies that are larger than the companies you speak of.

MR. MEANS: Then how about International Nickel? It produces most of the nickel in the world. Is it a cartel?

MR. COX: International Nickel standing alone is not a cartel. It is simply a large combination of capital. Of course, it might, by making an agreement with other metal companies, become a party to a cartel arrangement.

MR. BENTON: I guess that the experts on cartels have classified, ticketed, and subdivided them like deep-sea fauna. Perhaps one way to go at this subject is to discuss the effects of cartels on the economy and on the world during the war and after, rather than to try to classify them too sharply.

One way to tackle that is to talk about the contrast between cartels and a cartelized economy. How would you define the free-

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enterprise system, which is, of course, the classic contrast to cartels and their operation?

MR. MEANS: Free enterprise usually means that each separate company competes with every other company. Such competition is an essential to the free-enterprise system. There cannot be real competition if the companies in each industry agree on prices and markets.[1]

MR. BENTON: I suppose that there is not any perfect competition. I found a good illustration in reading the *New York Daily News* the day before yesterday in an advertisement by Billy Rose for his night club, which is here in New York. He told the story of a little frankfurter salesman who stood outside J. P. Morgan's, down in Wall Street. Some friend of the frankfurter salesman came up one day and asked him to loan him five dollars. The salesman looked at him and fixed a cold eye on him and said, "Absolutely not."

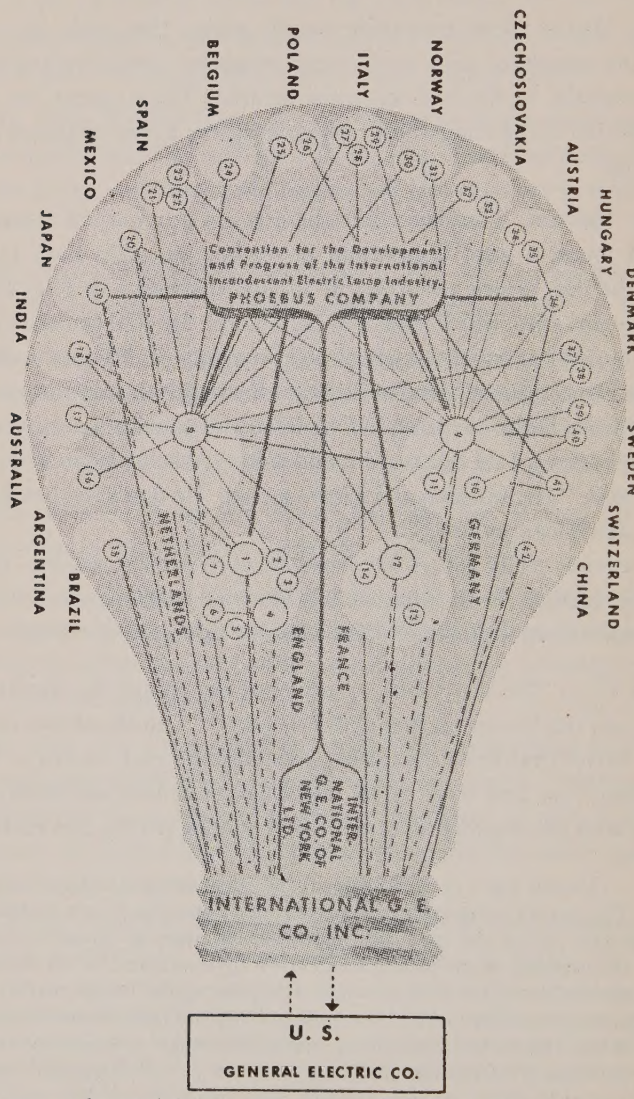
He said, "Mr. Morgan and I have a deal. He don't sell hot dogs, and I don't loan money."

We do not really get perfect freedom, even in any economy. Cox, will you further clarify what cartels are from your experience with the Department of Justice? Give us some examples of cartels.

MR. COX: The two classic examples of cartels are the aluminum cartel and the European iron and steel cartel. The aluminum cartel was a cartel that fixed quotas of production for each country. The European iron and steel cartel was a group of iron and steel producers who got together and agreed on quotas, prices, and market-

[1] ". . . . Cartels begin by restricting production at home in order to keep up prices. This in turn compels them to prevent new enterprise or new techniques of production. When the cartel gets a stranglehold over the domestic market, it feels the necessity of preventing competition by foreigners. So the domestic cartel becomes international in its scope. It divides up the foreign market and erects private protective tariffs. This leads to control of international economic policy. It uses this control to give away foreign markets to our enemies in return for the privilege of restricting production at home . . . ." (Thurman Arnold, "The Abuse of Patents," *Atlantic Monthly*, July, 1942).

THE STORY OF AN ELECTRIC-LIGHT BULB



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● At the left is one of the most complex of patent cartels—the cartel in incandescent lamps, stemming from the basic position held by the United States General Electric Co., though G.E. has no direct, formal membership. The nub of the cartel is Phoebus Co. Heavy solid lines represent direct participation, lighter lines indicate varying degrees of ownership by major members of subordinate companies, and broken lines indicate some of the direct patent cross-licensing, price, and market agreements. International General Electric Co., Inc., is 100 per cent owned by G.E., and International G.E. in turn owns 100 per cent of International G.E. Co. of New York, Ltd., which is a direct member of Phoebus. Patent rights flow between International G.E. of New York, Ltd., and the members of Phoebus in both directions (*Fortune*, September, 1942).

1. Associated Electrical Industries, Limited
2. Stella Company
3. Osram Lamp Works
4. General Electric Company, Limited
5. Siemens Electric Lamp Company
6. Cossor, Limited
7. Crompton, Parkinson, Limited
8. N. V. Philips Gloeilampenfabrieken
9. Osram G.m.b.H. Kommanditgesellschaft
10. Pintsch
11. Radium Electricitats
12. Cie des Lampes
13. Visseaux
14. Usines Philips
15. General Electric S.A.
16. Fabrica Argentina de Productos Electricos, S.A.
17. Elma
18. Elma
19. Tokyo Electric Company
20. Cia Mexicana de Lamparas Electricas, S.A.
21. Lamparas Electricas Zeta
22. Cie des Lampes
23. Osram Fabrica de Lamparas
24. Manufacture Belge des Lampes Electriques
25. Philips S.A.
26. Osram
27. Philips S.A.
28. Cia Generale dell'Elettricita
29. Societa Edison Clerici Fabbrica Lampade
30. Philips S.A.
31. Drammens Lampefabrik Company
32. Elektra Prague
33. Osram Prague
34. Osram Vertex Electrical Works
35. Kremeneczky
36. Vereinigte Gluhlampen Elektricitats A.G.
37. Philips S.A.
38. Nordisk Glodelampeindustri
39. Osram Elektraverken
40. Skandia
41. Licht A.G.
42. China General Edison Company, Incorporated

ing arrangements generally. Of course, there are many other cartels. The whole chemical field, for example, is filled with cartels—arrangements between I.G. Farben and I.C.I. and Allied Chemical and Dupont in this country.[2]

MR. MEANS: How about electrical equipment?

MR. COX: The electrical cartel is a very important cartel, and that, by the way, is a cartel in which the American companies have taken a leading role.

MR. MEANS: And the raw materials—nitrite, tin, nitrates, phosphates, mercury, diamonds . . . .

MR. COX: . . . . and the old rubber cartel.

MR. BENTON: Of course. What would you say are some illustrations of what cartels are not—that is, areas of the economy in which cartels do not operate?

MR. MEANS: A classic example of the complete absence of cartel is agriculture. Here there are ten million farmers competing with one another—raising wheat, corn, cotton. As a result of their competition, there is no control over price, except as we have special arrangements for government control.

MR. BENTON: In the realm of industry?

MR. MEANS: In industry there is the automobile industry. Three major companies produce most of the cars. They actively compete with one another. Ford will not allow them anything else.

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[2] I.G. Farben is a large German chemical and dye cartel and the I.C.I. is the Imperial Chemical Industries, Limited, of Great Britain. I.G. Farben controls more than half of Germany's chemical production and is one of the largest corporations in the world. It has world-wide interests in the chemical field and has been notable as one of the instruments of the German government for unifying the Continental chemical industry in the past few years. See Karl Falk, "German Industrial Octopus," *Current History*, November, 1942, and "No Peace with I.G. Farben," *Fortune*, September, 1942, for further discussion of this famous international cartel.

MR. BENTON: That makes a very good point, because cartels are not necessarily large companies. The Anti-Trust Division of the Department of Justice, in fact, has made it clear that they are not aiming at business because it is big; there is no objection to size as such. In fact, there are great efficiencies in size, as Sears, Roebuck and General Motors and many other large companies indicate.

MR. MEANS: But size may be dangerous.

MR. BENTON: Yes, it may. However, Thurman Arnold himself said, "The protection of big business which owes its size to efficiency is in the defense of the rights of the humblest citizen."

MR. COX: The size by itself, I think, is not particularly significant in this field. It is not a question of size so much as it is a question of restrictive arrangements.

MR. BENTON: That brings us to the second question of how cartels operate, in contrast to industries, regardless of size, that are not cartelized.

MR. COX: The most common cartel practices are these: first, the fixing of minimum prices; second, the limiting of production or supply, and that, by the way, often takes the form of actually scrapping facilities or destroying a plant when the cartel believes that there is excess capacity. A third practice is a division of territory so as to avoid price competition; and a fourth practice, which is as important as any of the others, is the practice of combining to exclude people from the field or to deny others the right to go into business.[3]

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[3] ". . . . The principal smoke screens under which domestic and international cartels have cloaked their activities are patent laws—which, like lost sheep have gone astray. A simple example is the patent pool. I take the patent pool in synthetic rubber as an example, because the effects have hurt not only war production but every private consumer.

"In 1926 Standard Oil of New Jersey was afraid of competition from synthetic gasoline. So it set out to get world control of the production through control of patents. The German Dye Trust wanted to control synthetic rubber—also by control of patents. So Standard Oil and the Germans formed an international cartel. They pooled the principal patents. In the gasoline field, Stand-

MR. BENTON: All these practices involve higher prices and less competition. Price agreements usually involve restriction of output. Yet, we must have high production, I am sure you would agree, if we are going to have enough to go around.

MR. MEANS: That is right.

MR. BENTON: A good way to illustrate for our audience what a cartel is perhaps might be if the three of us . . . .

MR. MEANS: Why don't we organize a cartel?

MR. BENTON: . . . . just pretended that we had the money—we hope we could get more money—to try out a plan here of setting up a cartel.

MR. MEANS: I have some patents on an electric doll. How about you? Do you have any?

MR. BENTON: You have taken the lead here, Means, so I will make you the German participant in this cartel. I shall call you Herr Means. I have some; I have some patents that could be applied to an electric doll, too.

MR. MEANS: How about you, Cox?

MR. COX: I have a group of patents, too.

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ard controlled the patent pool. In the chemical field—which included rubber—the German Dye Trust had control and dictated who should produce under these patents. Of course, Standard Oil concealed this. It gave the State Department a positive statement that Standard had the control of synthetic rubber and that the German interest was a minority one. . . . . In 1938 they [Dow Chemical Company and Goodyear Rubber Company] wanted to develop synthetic rubber. . . . . But Standard Oil refused to give them patent licenses, except on terms which prevented development. . . . . Of course Standard Oil justified the trade on the ground that it was getting information from Germany. But here is how that worked. In 1935 Germany declined to release full information abut rubber because (I quote from a document taken from Standard Oil files) 'The Hitler Government does not look with favor upon turning the invention over to foreign countries.' . . . ." (Arnold, *op. cit.*). For suggestions on how to change the present patent-law system see Thurman Arnold, "We Must Reform the Patent Law," *Atlantic Monthly*, September, 1942.

MR. MEANS: Let's pool them.

MR. BENTON: Cox, I will make you the English participant of this cartel, and we will call you Lord Cox. You have some patents, and I have some patents here in America.

MR. COX: The first thing for us to do, then, I think, is to pool our patents and cross-license one another.

MR. BENTON: So that we will all have the best electrical dolls under one another's patents.

MR. MEANS: Then we will divide up the markets.

MR. COX: That is right. I do not want either one of you selling any electric dolls in the United Kingdom or in any of the colonies or English dominions. That is my territory.

MR. MEANS: I will take Europe and I will take South America.

MR. BENTON: That is all right with me, as long as you stay out of America. Further, I do not want to have anybody turning up in America with any of your patents and competing with me.

MR. COX: We have not divided up all the world. I suggest that in the balance of the world we all sell there but that we agree to observe one another's prices so that there will not be any competition.

MR. BENTON: What about keeping other competition out?

MR. COX: We had better agree . . . .

MR. BENTON: . . . . not to license anybody else.

MR. COX: That's right. We had better agree not to license anybody else and to do everything we can to keep them out of business.

MR. MEANS: Even other doll-makers. We will try to put them out of business.

MR. BENTON: You know, my engineers tell me that these patents I have in America might apply to electric dogs or electric lights. Maybe we can develop other interests.

Mr. Means: Not lights; we would get into trouble with the light cartel.

Mr. Cox: I have another arrangement on lights, so that is out.

Mr. Benton: Well, Herr Means and Lord Cox, if we can have this drawn up by our lawyers as a formal agreement, it looks to me as if we have a real opportunity in this field and a better opportunity by cooperation than we would have if we competed with one another.

Mr. Means: We will make some real money out of it.

Mr. Cox: We must keep out the price-cutters and the destructive people—the people who will not play the game according to the rules.

Mr. Benton: Yes, what Hugh Johnson used to call the "chiselers."

Mr. Cox: That's right.

Mr. Means: That's it.

Mr. Benton: That is the little act that we put on here in order to dramatize how these things are done. Certainly, it is not the way to promote small business, because we hope to be big businesses in the electric-doll field. Small business is the nursery of enterprise, and, of course, the cartels tend to combat and eliminate the risk-taking, competitive individual who is really the core of the American dream. What is the economic significance of practices of this kind?

Mr. Means: First, it results in a tendency for low production and high prices. It means that the cartel is always trying to get the most out of the consumer. That does not always mean supplying the consumer with the most. Second, it has an effect on employment and the standard of living. Employment is less if the cartels do not sell as many products. If they restrict better techniques of production, then it means a lower standard of living. Finally, it stifles individual initiative and enterprise. New enterprises cannot come into the industry. Isn't that so?

MR. COX: That is right. If there had been a really effective cartel in the motorcar industry in this country, Henry Ford would never have been permitted to go into the business.

MR. MEANS: That is a very good point.

MR. BENTON: If you stifle the newcomer, you are making for greater and greater centralization of power all the time.

MR. MEANS: Of course, cartels have some uses. They do prevent dumping. They provide a sort of industrial stability. Probably they even increase industrial progress.[4]

MR. BENTON: We have to concede that the record of cartels indicates that they do not prevent technical progress. The German cartels have demonstrated that with their great research laboratories. They have operated against a fixed price. In many cases there has been great incentive to them to do research work that would result in lower costs, so that they individually, as members of the cartel, could make more money.

MR. COX: It may be that you cannot say they have prevented technical progress, but I want to make the point very vigorously that I am not prepared to admit that you would not get more technical progress in a free-enterprise system. In fact, I am firmly convinced that you would.

MR. BENTON: Do you think that there are any good cartels?

MR. COX: That question is like asking, "Are there any good dictators?" We have heard of these political dictatorships that made the trains run on time and got rid of the beggars. My answer is that the political stability you get in a dictatorship comes at too high a price and that the economic stability you get in a cartel system comes at too high a price.

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[4] "Dumping" is the practice of selling goods in quantity on a certain market. It is done especially in distant markets, at abnormally low prices, in order to dispose of a surplus or to break down competition there.

Mr. Benton: So you think that the American corporations that claim that they receive the best of the deal when they are trading with the English, German, or Japanese corporations do not have a very good argument to prove that they are acting in the interests of the American economy.

That brings us to the next area of the discussion here—the paradox which we have been bringing out in the development of the cartels in a society which pays lip-service to an alleged free-enterprise system. *Fortune* magazine, some years ago, described our economy in this country as half-slave, half-free. I think that it would be very much in order to try to resolve this paradox. Means, would you give us some historical background on the development of the cartels and explain how we happen to have them?

Mr. Means: The cartels are a product of a long development of industrial concentration. This has taken place in every industrialized country. Technology has made for bigger plants; plants combined into bigger enterprises.

For example, in the United States, two hundred corporations controlled 60 per cent of corporate assets by 1933. In the war development the granting of contracts necessarily to the biggest companies has increased further the concentration. These enterprises, once they get big, combine into cartels within each country, except in the United States, where they were somewhat prevented by the Anti-trust Laws.[5]

Mr. Cox: Of course, isn't it true that once they have stabilized their domestic market and eliminated what they always call . . . .

Mr. Means: They go right into the international.

Mr. Cox: . . . . "destructive" competition, then they move into the international market?

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[5] The President's monopoly message of 1938 said, in part: "Of all the corporations reporting, less than 5 per cent owned 87 per cent of the assets of all of them; one tenth of 1 per cent owned 50 per cent of the combined net income; 4 per cent earned 84 per cent of the total net profits."

MR. MEANS: That is right.

MR. COX: So that you get an international market that is controlled and dominated by these groups. I have read that in 1914 there were one hundred and fourteen cartel agreements on record. No one knows how many more there were that were not on record.

MR. MEANS: Many times that number now, and more important ones.

MR. COX: More than that now. There are many more that exist.

MR. BENTON: Well, 1920–40 was the great era of cartels.

MR. MEANS: That is right.

MR. COX: What that means, of course, is that you have the trade of the world taken over by these private groups who erect private tariffs and make private trade agreements. By the way, they make them in this country without getting the advice and consent of the Senate. They just make the treaties on their own.

MR. BENTON: The profit-and-loss system is not the system of the cartels. Ideally, business bears the risk of losses and collects the profits. The cartel seeks security, as in fact do all the rest of us.

I think that everything you both have said indicates that this is not a moral question. These men who set up these international business agreements are not evil men. They are not men who think of themselves as traitors to their country. They are following practices that seem to them to be good, sound business practices in the interests of their corporations and their stockholders.

MR. MEANS: I agree with that.

MR. COX: It is an economic problem.

MR. MEANS: What the cartels are really trying to do, though, is to deal with a situation that cannot be dealt with ordinarily on the basis of a competitive arrangement. They have gone in and tried to stabilize and to provide security as a result, because of the ups-

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THE UNIVERSITY OF CHICAGO ROUND TABLE PICTOGRAPH BY H. Haydon

E THEIR WORLD

Source: *Fortune*, September, 1942

and-downs of business and because of the uncertainties of political arrangements between different countries.

MR. BENTON: Actually, you could even go so far as to say that cartels are really much more internationally minded than their governments. They found the "one world" way ahead of Wendell Willkie. Since Adam Smith, trade has been the precursor of civilization, and the flag has followed. Most countries pursue nationalistic political policies in spite of talk of the Four Freedoms. The cartels are really the true internationalists.

MR. MEANS: That is brought out in the sound-film agreement. There the agreement says that "the territory covered by this agreement covers the entire world."

MR. BENTON: Yes. That was made in 1930. Al Jolson had hardly finished singing "Mammy" before the sound-film people were together writing up their agreement.

MR. MEANS: For the world.

MR. COX: I would like to make a comment on that. I think it is true that these people have developed the one-world idea ahead of the politicians, but it is a question of whose world it is going to be and . . . .

MR. BENTON: It's my world.

MR. COX: . . . . who is going to run that world and who is going to have an opportunity to produce and to make a living in that world. The objection that I have to the cartel arrangement as a way of dealing with these problems that Mr. Means has spoken of is that a cartel deals with them by low turnover and a high price and deals with them on the basis, usually, of the cost of the least efficient producer. You get an economic society which is ordered and stable and one in which no one has an opportunity to develop new ideas. I do not think in the end it would lead to stability. It would lead us, and we would come ultimately, to a totalitarian economic society and, I think, to a totalitarian political society.

Mr. Benton: An internationally minded group, however. I remember the story told by Aristotle of the Greek citizen who, when asked what country he belonged to, replied, "I am one of the rich." The cartel internationalism is internationalism for the benefit of the cartels.

That brings us to our next question. There was no attempt in the Versailles Treaty to preserve the great foundation of industrial democracy—the right to produce. I think that our audience would be very much interested in hearing our views today on what can be done about the cartels as we look toward the peace.

There is another set of planners, apparently busy in the cartels and in certain business circles, planning for high prices, low production, and low turnover. This may be the greatest menace to high levels of employment and production that we are facing. What do we think can be done about it?

Mr. Cox: Of course, you can just leave the situation alone and do nothing about it.

Mr. Means: What would happen then?

Mr. Cox: If you do that, it is pretty clear to me that it means that the German economic idea has prevailed. The Germans may lose the war politically and in a military way, but, if we leave the cartels alone, then the world is going to be run just the way the Germans would have run it if they had won in a military sense.

Mr. Means: You mean that they are so far ahead in their cartels that they would simply spread out and take the rest of the world over?

Mr. Cox: No. I am not thinking so much of the question of the nationality of the people who run it. What I am saying is that the German economic idea of a regimented economy would be the idea that would prevail.

Mr. Benton: What other ways are there?

MR. MEANS: There are two extreme possibilities. One is a world NRA—something we would not much like—in which you had agreements for each industry.

MR. COX: We had a taste of that here, and we didn't like it.

MR. MEANS: The other extreme would be the creation of complete international competition. That would mean that each country and each company in each country would operate on its own and compete.

MR. BENTON: I think that the tenor of this conversation is that, from the democratic point of view, the three of us agree that the closer we can get to international competition the better.

MR. MEANS: Yes. But how close can you get? There is a good deal of question as to whether you can really get international competition.

MR. BENTON: What specific suggestions do you have in that area?

MR. COX: I just want to say as to Means's last comment that it is a question of what we want. If we go into the post-war arrangements with a desire for a free market, I think that we will do a great deal more to get it than if we go in with the idea that we should have a planned economy of some kind.

MR. BENTON: Isn't it a fair statement, though, that only 5 per cent of our total business is export trade? Isn't it a fair statement that the start in this field of specific suggestion is to look at the 95 per cent of those right here at home?

MR. COX: I think that that's right.

MR. BENTON: Don't we have to clarify the Anti-trust Laws?

MR. COX: I would not agree that clarification is the primary problem there. The problem and the task are to enforce the Anti-trust Laws and to keep the domestic economy free.

MR. BENTON: Many of the business groups of the country disagree with the Department of Justice's rulings on the Anti-trust Laws. Perhaps they need both enforcement and clarification.

MR. COX: I think that enforcement will clarify the laws because it will build up a body of court decisions that will make it clear to the businessman what he can and cannot do.

MR. MEANS: How about the patent laws? You are a lawyer.

MR. COX: There are some things that could be done with the patent laws. Of course, I would like to say here that the Department of Justice thinks that most of these patent arrangements that are used to erect cartel structures are illegal under the existing laws and will be knocked down by the courts. If the department is wrong about that and if there are some of these restrictive practices that are legal under the present law, then the law should be changed.

MR. BENTON: The patent agreement is said to be the most important legal device in the modern world. Certainly, as our story of the electrical-doll business brought out, patent and licensing are often the chief weapons in the setting-up of these cartels. I know that there is the Kettering Committee, and other groups in Washington, now studying the whole field of patent legislation.

MR. COX: In that connection, I would like to say that the Kettering Commission, the National Patent Planning Commission, has recommended to the President that a statute be passed requiring all international patent agreements to be filed with the Patent Office, so that they will be known publicly. I think that this is a good idea. It should be extended to all kinds of international trade agreements.

MR. MEANS: Then there is the Webb-Pomerene Act. We cannot operate on that. That provides that the particular American businesses can combine in dealing with foreign countries.[6]

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[6] The Webb-Pomerene Act, or Export Trade Act, was passed in April, 1918, and is entitled "An Act To Promote Export Trade and for Other Purposes." It grants certain exemptions from the antitrust laws to export combines, on the

MR. BENTON: It makes cartels legal.

MR. MEANS: It makes cartels outside this country legal.

MR. BENTON: There are forty-five of them operating now under the Webb-Pomerene Act. Do you think that that act should be repealed?

MR. MEANS: It ought to be modified or revised so that a real responsibility can be provided. If you repeal it, then you provide no basis on which American industry can deal with cartelization abroad.

MR. BENTON: There are certain domestic acts, too, such as the Robinson-Patman Act and the Miller-Tydings Act, which fix resale prices of brands.[7]

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basis of certain safeguards to domestic business, in order to facilitate movement of American goods, encourage exporters, and enable them to compete with selling combinations of other countries. It applies only to export goods (no resale goods) and provides for registration of such arrangements with the Federal Trade Commission. The Act states that "the words 'export trade' wherever used in this Act mean solely trade or commerce in goods, wares, or merchandise exported, or in the course of being exported from the United States or any Territory thereof to any foreign nation; but the words 'export trade' shall not be deemed to included the production, manufacture, or selling for consumption or for resale, within the United States or any Territory thereof, of such goods, wares or merchandise, ... nothing contained in the Act . . . . shall be construed as declaring illegal an association entered into for the sole purpose of engaging in export trade and actually engaged solely in such export trade. . . . ." On file with the Federal Trade Commission at the present time are forty-four associations listed as export associations in operation. Among the products which are exported by these trade associations are metals and metal products, minerals and oils, lumber and wood products, certain foodstuffs, and some other manufactured goods such as paper, textiles, and so on.

[7] The Robinson-Patman Act, which became effective in June, 1936, is a legislative act designed to convert monopoly legislation into a practical weapon by which small business can compel price treatment equal to that which its larger competitors receive. It seeks not to curb monopolies or unfair practices in the field of production (as the Sherman Anti-trust Act and the Clayton Act did), but it injects governmental regulation into the field of selling and distribution of goods. It declares unlawful not only price discriminations which have the effect

MR. MEANS: That would help competition inside this country.

MR. BENTON: These make for monopoly practices within the country and should be repealed. Of course, if you repeal the Webb-Pomerene Act, we may be left without any suitable alternative.

MR. COX: Means has a point there. The statute is not a good statute; it has some bad domestic effects, but before we wipe it off the books we should be sure that we have something to take its place, because it may be the kind of blue chip that we will need if we sit down to play international trade.

MR. MEANS: I would agree.

MR. BENTON: One of the most important problems of the peace that will face the people who sit down at the peace conference will be the question of the large German capital aggregations and the tremendous controls that are now operating through German industry. I was told by one of your men, Cox, that German industries have legally purchased practically every major business in Europe.

MR. COX: That is true. The large German combinations now dominate all the industries in all occupied Europe. Of course, at the

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of substantially lessening competition or which tend to create a monopoly but also those which injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of the discrimination, or the customers of either of them. It declares unlawful and gives the Federal Trade Commission jurisdiction over the following transactions: (1) a direct discrimination in price between purchasers from the same seller; (2) payment of brokerage or commissions except for services rendered; (3) discriminatory allowances for facilities or services furnished by the buyer; (4) the seller furnishing services and facilities to favored buyers and not to others. (Certain sales to governments, charity organizations, schools, and such, and exports are exempted.) The Act declares illegal any discrimination which would result in placing the little man at an unfair disadvantage in his competition with the big man.

In 1937 Congress passed the Miller-Tydings Resale Price Maintenance Enabling Act as a direct amendment to the Sherman Act (the Sherman Act passed in 1890 makes it unlawful to enter into a contract, combination, or conspiracy in restraint of trade among the several states). This law allows goods on which a manufacturer has fixed a resale price in accordance with state resale price laws to be shipped in interstate commerce without violating the Sherman Act.

peace table, something will have to be done to untangle that relationship and restore those industries to a free position.

MR. BENTON: Germany's export of technology, according to *Fortune*, has been its chief counter and control in world trade. Even if we break up the big capital aggregations, we will still face the problem of handling it in the future.

Gentlemen, that brings us to the point of trying to summarize today's discussion.

America certainly hopes that we are on the verge of a new industrial age. Trains and automobiles can be lighter and stronger after the war. We hope that we can look forward to cheaper housing, produced by mass methods. Chemical substitutes offer new products at lower prices. The new blood of full production has come into our economy during this war.

We have said today that a cartel is an agreement among business units which fixes prices, divides markets, or limits production. We have agreed that cartels have been growing, that the trend is still up, and that cartel practices endanger free enterprise and constitute a major threat to democracy. Further, we have agreed that cartel practices tend to restrict production and raise prices. In so doing, these practices hold back the chance for high levels of employment and productivity which must be part of our war objectives.

We have suggested that consideration be given to clarifying the Anti-trust Laws in this country and to a revision of the patent laws, so that patents will be used legitimately rather than as a vehicle for making agreements and special deals.

We have agreed that the Webb-Pomerene Act should be reviewed; that the Miller-Tydings and the Robinson-Patman acts should be repealed; and we have agreed that the German controls—the big German capital aggregations and industrial controls—must be broken up as part of the peace treaty.

Perhaps the best summary of this entire area from the standpoint of American business is a quotation from Mr. Rockwell, the president of the National Lead Company, who said last week, in re-

sponse to an action taken against him by the Department of Justice, "American business must now have a directive from the government and the people of the United States on how they want international business conducted."

The ROUND TABLE, *oldest educational program continuously on the air, is broadcast entirely without script, although participants meet in advance, prepare a topical outline, and exchange data and views. The opinion of each speaker is his own and in no way involves the responsibility of either the University of Chicago or the National Broadcasting Company. The supplementary information in this transcript has been developed by staff research and is not to be considered as representing the opinions of the* ROUND TABLE *speakers.*

More on This Topic

ARNOLD, THURMAN, "The Abuse of Patents," *Atlantic Monthly*, July, 1942. *A critical analysis of present patent policy.*

———, "How Cartels Affect You," *American Mercury*, March, 1943. *Gives numerous examples of domestic cartels and argues that they must be broken up to head off post-war depression.*

FOLK, GEORGE E., *Patents and Industrial Progress.* New York: Harper & Bros., 1942. *Argues that one's patent grants are his property rights to be used by him, leased or licensed by him, or sold at his pleasure.*

HACKLEY, ROY C., "Invention Is Vital," *Atlantic Monthly*, October, 1942. *A defense of the American system of patents.*

HAMILTON, WALTON, *Patents and Free Enterprise.* Washington, D.C.: U.S. Government Printing Office, 1938. *Monograph No. 31 of the Temporary National Economic Committee. Highly critical of the present patent policy.*

———. "The Strange Case of Sterling Products," *Harper's*, January, 1943. *A case study of the relations between an American drug company and I.G. Farben.*

LANGNER, LAWRENCE, "We Depend on Invention," *Atlantic Monthly*, July, 1942.

"No Peace with I.G. Farben," *Fortune*, September, 1942. *A comprehensive report on one of the world's biggest and most important cartels.*

REIMANN, GUENTER, *Patents for Hitler.* New York: Vanguard Press, 1942. *A review of how international cartel patent arrangements were used by Germany to hamper the British and American war economies.*

"Restoring Freedom," in "The United States in a New World," Part III. A supplement to *Fortune*, December, 1942.

"War and Peace and the Patent System," *Fortune*, August, 1942. *An analysis of the merits of the present patent system.*

What Do *You* Think?

1. What is a cartel? How does a cartel affect production? New enterprise? Employment? What is the difference between a cartel and a monopoly? What are the most common cartel practices?

2. Give some examples of cartels in the domestic and international field. What are the usual or necessary relations between domestic and international monopolies?

3. What are the arguments for cartels? Is it true that cartels provide economic stability and aid technical progress? Has the fixed-price system set up by cartels been a great incentive for the development of synthetics to take the place of high-priced raw materials? Are cartels the inevitable result of modern technology and industrial concentration?

4. What are the arguments against cartels? Why do they result in low production, high prices, reduced employment, and a restriction of invention and better techniques of production? Is there a causal relation between an economic system of cartels and a political system of dictatorship? Discuss.

5. Is there a conflict between the loyalty of a corporation official to his corporation and to his country when, in entering into international cartels, agreements are made to restrict research and production within the United States? Is there a moral problem when shortages of drugs, dyestuffs, light metals, synthetic rubber, etc., appear as a result of men following good sound business practices in the interests of their corporations and their stockholders? What is the economic answer to this problem?

6. What are the arguments for and against the indicated cartel policy alternatives of: leaving the situation alone; setting up a world NRA; and the creation of complete international competition? How do you think the United States should deal with international cartels after the war?

7. What should be done about cartels and monopolies within the United States? Should the federal government pursue an active policy of antitrust prosecutions? Should the United States patent law be reformed? Discuss.

The People Say....

The following letters are representative of the views expressed by the ROUND TABLE *audience on "Race Tensions," broadcast July 4, 1943*

*

"Gives Us Hope"

.... As a member of a minority group one gets the feeling that he is destined for a life of injustice, but hearing men of your caliber discussing our group so openly and sincerely gives us new hope and courage and enables us to feel that not all the other group are alike. It makes us feel that there are men of the white race who are fighting for us constantly and hate the injustice we experience as badly as we..... I feel that both sides are wrong—one because they mistreat another group and the mistreated group because it carries a chip on its shoulder. I am hoping that your talk will help change that..... —*A listener from St. Louis, Missouri.*

*

"Very Utopian"

Just tuned in on your program by chance and wonder just what you can hope to accomplish by such argument. It is very utopian for the Negro and minority groups perhaps, but abolishment of segregation can be accomplished only if it embraces every phase of life. That means social and marital incidents..... God made white and black and, as you carelessly tossed in, brown (you might add yellow and red)..... Unless our social life permits marriage and sentiment we do not have equality. In my opinion, that would be chaotic..... I am in favor of the Negro's having his chance; I feel he can. But let him stay by himself. We whites who are made white do not want to mingle with the black man, and, if he is respectable, he should not want us to mingle with him socially..... As I say, God planned the races, and unless he made a mistake and (to be perhaps sacrilegious) mixed his pigments wrong, that is the way they should remain..... —*A listener from Wilmington, Delaware.*

*

Do Not Want Social Equality

.... I am a Negro woman, and I am one of 13,000,000 who only wish a fair deal and the privileges of all other American citizens.

There is the mistaken idea among the average white that Negroes seek social status with them and to be treated as social equals. This is all wrong. Every Negro man, woman, and child only wishes to be treated as a human being should be treated in a civilized country where he has to abide by the laws of the country and state (but where they are all violated against him).—*A listener from Hopkinsville, Kentucky.*

Level-headed Discussion

. . . . It is my opinion that more voices should be allowed to go out over the air to endeavor to show our people that, unless we whites do something about relieving the tension and hate and discrimination, the darker peoples all over the world are going to do it themselves. And that will be the harder way. Thanks for today's level-headed discussion.—*A listener from Chicago, Illinois.*

*

Noble Attempt

. . . . I feel that your program was a noble attempt to break the ice of racial prejudice, narrow-mindedness, and bigotry. It seems to me that it should be carried much, much further if we are to eliminate race riots and lynchings from our national scene.—*A listener from West Somerville, Massachusetts.*

*

Keep Segregation

. . . . We in the South work with the Negro, but they have their churches, schools, eating-places, ride to themselves, and have their own banks. . . . . I hope that you northerners will remember that we in the South have boys fighting for freedom, but when they win the victory and come home, I hope that they don't have to associate with the Negro. If the white peoples can't make our laws and run our country, our boys will have died in vain.—*A listener from Winston-Salem, North Carolina.*

Educate Together

I enjoyed the ROUND TABLE discussion Sunday more than any that I have ever heard. . . . . For I truly believe that if we would face the race question squarely, and not with "the skeleton in the closet" attitude, there would be no problems such as we now have in our country.

Do you not feel that educating the children together, instead of in segregated schools, would aid this situation? I attended school in Ohio and Pennsylvania. Naturally, we had our spats, but they were personal, not racial. Here in Washington, I find that the children have contempt for one another. It is only because they are kept apart, thus not realizing the good that could be accomplished if they understood each other.—*A listener from Washington, D.C.*

*

Landmark in Radio

. . . . I write to congratulate you on a program which I believe to be a landmark in radio. Not only was it an extraordinary and courageous thing to do, but it was handled, I felt, with the utmost intelligence and understanding. . . . . It was especially good to see that they were free to discuss a subject so loaded with dynamite in an honest and straightforward fashion.

Let me repeat my congratulations, and extend them also to NBC, which deserves admiration for outstanding courage and devotion to the public service in broadcasting this program. —*A listener from Gary, Indiana.*

ROUND TABLE NETWORK OF 119 STATIONS

2:00 P.M. EASTERN WAR TIME

City	Call Letters	Kilocycles	City	Call Letters	Kilocycles
Allentown, Pa.	WSAN	1470	Martinsville, Va.	WMVA	1450
Altoona, Pa.	WFBG	1340	Miami, Fla.	WIOD	610
Asheville, N.C.	WISE	1400	New York, N.Y.	WEAF	660
Atlanta, Ga.	WSB	750	Norfolk, Va.	WTAR	790
Bluefield, W.Va.	WHIS	1440	Philadelphia, Pa.	KYW	1060
Boston, Mass.	WBZ	1030	Pittsburgh, Pa.	KDKA	1020
Charleston, S.C.	WTMA	1250	Portland, Me.	WCSH	970
Charleston, W.Va.	WGKV	1490	Providence, R.I.	WJAR	920
Charlotte, N.C.	WSOC	1240	Raleigh, N.C.	WPTF	680
Cincinnati, Ohio	WLW	700	Reading, Pa.	WEEU	850
Clarksburg, W.Va.	WBLK	1400	Richmond, Va.	WMBG	1380
Cleveland, Ohio	WTAM	1100	Rochester, N.Y.	WHAM	1180
Columbia, S.C.	WIS	560	Savannah, Ga.	WSAV	1340
Detroit, Mich.	WWJ	950	Springfield, Mass.	WBZA	1030
Florence, S.C.	WOLS	1230	Springfield, Ohio	WIZE	1340
Grand Rapids, Mich.	WOOD	1300	Syracuse, N.Y.	WSYR	570
Greenville, S.C.	WFBC	1330	Tampa, Fla.	WFLA	970
Greenwood, S.C.	WCRS	1450	Toledo, Ohio	WSPD	740
Jacksonville, Fla.	WJAX	930	Washington, D.C.	WRC	980
Johnstown, Pa.	WJAC	1400	Williamsport, Pa.	WRAK	1400
Harrisburg, Pa.	WKBO	1230	Wilmington, Del.	WDEL	1150
Lakeland, Fla.	WLAK	1340	Winston-Salem, N.C.	WSJS	600
Lima, Ohio	WLOK	1240	York, Pa.	WORK	1350

1:00 P.M. CENTRAL WAR TIME

Birmingham, Ala.	WBRC	960	Louisville, Ky.	WAVE	970
Bismarck, N.D.	KFYR	550	Madison, Wis.	WIBA	1310
Chicago, Ill.	WMAQ	670	Mankato, Minn.	KYSM	1230
Dallas, Texas	WFAA	820	Memphis, Tenn.	WMC	[illegible]
Des Moines, Iowa	WHO	1040	Mobile, Ala.	WALA	1
Duluth, Minn., and Superior, Wis.	WEBC	1320	Montgomery, Ala.	WSFA	1
Eau Claire, Wis.	WEAU	1070	Nashville, Tenn.	WSM	[illegible]
El Paso, Texas	KSTM	1380	New Orleans, La.	WSMB	13[illegible]
Evansville, Ind.	WGBF	1280	Oklahoma City, Okla.	WKY	930
Fargo, N.D.	WDAY	970	Omaha, Neb.	WOW	590
Fort Wayne, Ind.	WOWO	1190	Rochester, Minn.	KROC	1340
Hattiesburg, Miss.	WFOR	1400	St. Cloud, Minn.	KFAM	1450
Hibbing, Minn.	WMFG	1240	Shreveport, La.	KTBS	1480
Houston, Texas	KPRC	950	Sioux Falls, S.D.	KSOO	1140
Indianapolis, Ind.	WIRE	1430	Springfield, Mo.	KGBX	1260
Kansas City, Mo.	WDAF	610	Terre Haute, Ind.	WBOW	1230
Kingsport, Tenn.	WKPT	1400	Tulsa, Okla.	KVOO	1170
La Crosse, Wis.	WKBH	1410	Virginia, Minn.	WHLB	1400
Little Rock, Ark.	KARK	920	Wichita, Kan.	KANS	1240

12:00 M. MOUNTAIN WAR TIME

Albuquerque, N.M.	KOB	770	Phoenix, Ariz.	KTAR	620
Billings, Mont.	KGHL	790	Pocatello, Ida.	KSEI	930
Boise, Ida.	KIDO	1380	Safford, Ariz.	KGLU	1450
Bozeman, Mont.	KRBM	1450	Salt Lake City, Utah	KDYL	1320
Butte, Mont.	KGIR	1370	Tucson, Ariz.	KVOA	1290
Denver, Colo.	KOA	850	Twin Falls, Ida.	KTFI	1270
Helena, Mont.	KPFA	1240	Yuma, Ariz.	KYUM	1240

11:00 A.M. PACIFIC WAR TIME

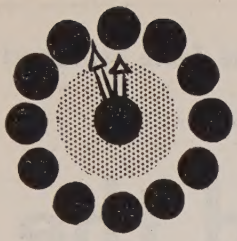
Bakersfield, Cal.	KERN	1410	Sacramento, Cal.	KFBK	1530
Fresno, Cal.	KMJ	580	San Diego, Cal.	KFSD	600
Los Angeles, Cal.	KFI	640	Seattle, Wash.	KOMO	950
Medford, Ore.	KMED	1440	Spokane, Wash.	KHQ	590
Portland, Ore.	KGW	620			

STATIONS CARRYING ROUND TABLE BY TRANSCRIPTION

Buffalo, N.Y.	WBEN	930	Minneapolis and St. Paul, Minn.	KSTP	1500
Columbus, Ohio	WCOL	1230	St. Louis, Mo.	KSD	550
Milwaukee, Wis.	WTMJ	620	San Francisco, Cal.	KPO	680
Minneapolis, Minn.	WLB	770	Schenectady, N.Y.	WGY	810

BY TRANSCRIPTION VIA SHORT WAVE

Anchorage, Alaska	KFQD	790	Juneau, Alaska	KINY	1450
Fairbanks, Alaska	KFAR	610	Ketchikan, Alaska	KTAN	930



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A University of Chicago Round Table Broadcast

JULY 18, 1943

War and the Middle Class

PETER DRUCKER, Department of Political Economy, Bennington College

WALTER JOHNSON, Department of History, University of Chicago

HAROLD LASSWELL, Director of War Communications Research, the Library of Congress

SUGGESTED READINGS

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